

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 875 – HB 724

March 27, 2013

**SUMMARY OF ORIGINAL BILL:** Authorizes the counties of Davidson, Hamilton, Knox, and Shelby, as well as the cities of Nashville, Chattanooga, Knoxville, and Memphis to issue bonds for the purpose of funding pension benefits for former service employees. Requires the provisions of this bill to sunset on July 1, 2015, provided that no bond issued prior to July 1, 2015, shall be ineffectual.

FISCAL IMPACT OF ORIGINAL BILL:

Increase Local Expenditures – Exceeds \$100,000/Permissive

**SUMMARY OF AMENDMENT (004989):** Deletes all language after the enacting clause. Authorizes all local government entities to issue bonds for the purpose of funding pension benefits from defined benefit plans administered by the local government entity. Requires the provisions of the bill as amended to sunset on July 1, 2015, provided that no bond issued prior to July 1, 2015, shall be ineffectual. Removes the requirement that local governments meeting certain criteria receive a recommendation by the Comptroller of the Treasury or the approval of the State Funding Board.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Increase Local Expenditures - Exceeds \$200,000/Permissive

**Other Fiscal Impact – According to the Comptroller of the Treasury, the number of debt issuance applications that the Office of State and Local Finance will be required to review is unknown; as a result, it cannot be determined if the Comptroller's Office can accomplish the additional reviews within existing resources.**

Assumptions for the bill as amended:

- Pursuant to Tenn. Code Ann. § 9-21-127, local governments may issue general obligation bonds for certain unfunded pension obligations if approved by the State Funding Board after receiving a recommendation by the Comptroller of the Treasury.

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Bonds issued under this chapter shall mature in no more than 30 years and shall be invested in accordance with the provisions of an investment trust pursuant to Tenn. Code Ann. Title 8, Chapter 50, Part 12.

- This bill as amended will extend the ability of all local governments to issue bonds to fund pension obligations for former employees, and would not require the oversight of the State Funding Board and Comptroller of the Treasury if certain criteria are met.
- According to the Comptroller of the Treasury (COT), the Office of State and Local Finance would conduct the review of any proposed debt issuance, and if recommended, would present the proposal to the State Funding Board for approval.
- According to COT, it is uncertain the number of local government entities that would be eligible to bypass the State Funding Board for approval. Based on a 2010 Census report released April 30, 2012, there are 14 local pension systems in Tennessee; however it is not clear if this number includes residual plans that have been closed to new participants.
- According to COT, the number of debt issuance requests from local governments that will require review by the Office of State and Local Finance are unknown; as a result, it is indeterminable if this requirement can be accomplished within the existing resources of the Agency.
- The fiscal impact for this bill as amended to local governments is dependent upon multiple unknown factors, including but not limited to, the principal amounts of any bonds issued, the terms of any issued bonds, the coupon interest rates for issued bonds, and the timing of issuance. Given the extent of unknown factors, a precise fiscal impact to local government expenditures cannot be determined. However, the permissive increase in local government expenditures is reasonably estimated to exceed \$200,000 per year.

### **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

/jrh